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AUTHOR Ewing, Samuel D., Jr.; Maloney, Clifton H. W.
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ABSTRACT

This minority capital resource handbook consists of a guide to raising capital for minority entrepreneurs and a listing of sources that provide such capital. The first section deals with the process of raising capital. The realities of raising capital, intermediaries and financial advisors, and assessing needs are outlined. Factors considered in evaluating the entrepreneurial team and the venture are discussed. Six points to consider when presenting a proposal to an investor are examined, and a sample proposal is provided. The investigation and negotiation stages and post-financing relationships are also described. Individual investors and various institutions are discussed as potential sources of capital. The following types of institutions are covered: commercial banks, the small business administration, small business investment companies, venture capital firms, corporate venture capital activities, and minority enterprise small business investment companies (MESBICs). MESBICs in twenty-one states (California, Connecticut, Hawaii, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Michigan, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, Washington, West Virginia, and Wisconsin) are listed. A page of miscellaneous sources and a brief bibliography are provided. (MN)

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Minority Capital Resource Handbook

A GUIDE TO RAISING CAPITAL FOR MINORITY ENTREPRENEURS
SECOND EDITION

by

Samuel D. Ewing, Jr.
Director

Federal Savings and Loan Insurance Corporation
Federal Home Loan Bank Board
Washington, D.C.

and

Clifton H. W. Maloney
Vice President
Goldman, Sachs & Co.
New York

The Securities Industry Minority Capital Foundation
490 L'Enfant Plaza East, S.W.
Washington, D.C. 20024

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Preface

The Securities Industry Association is the trade association for the Nation's investment bankers and brokers. Several years ago, the Association's members established the Securities Industry Minority Capital Foundation, in part to help minority entrepreneurs raise funds. This Handbook is a response to numerous inquiries from minority entrepreneurs as to where capital can be found to finance their prospective businesses.

The Foundation is guided by a Board of Directors and a Minority Capital Committee made up of securities industry executives (listed on the following page). It is appropriate at this time to acknowledge the contribution of Mr. Travers J. Bell, Jr., Chairman of Daniels & Bell, Inc., and of the Minority Capital Committee, for their inspiration and continuous encouragement. We are appreciative of the efforts of Mr. Jeffrey B. Tober, Bankers Trust Company, for his help in compiling the survey and assisting in editing the text. We also thank Mr. Patrick O. Burns, Executive Vice President, Minority Equity Capital Company, Inc., and Mr. Howard H. Mackey, III, President and Chief Executive Officer, Equico Capital Corp., for their valuable suggestions on editing the material. Mr. Frank L. McHugh, Director of Special Service Projects, contributed in providing Securities Industry Association resources. In short, special thanks to all of the people and firms who provided the support needed to bring the Handbook to completion.

It is sincerely hoped that the Handbook will help to foster the growth of minority business.

Securities Industry Minority Capital Foundation

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135 South LaSalle Street
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Clifton H. W. Maloney
Vice President
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55 Broad Street
New York, N.Y. 10004

Aaron L. Spaulding
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Joseph W. Hammer
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Assistant Vice President
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Ten Hanover Square
New York, N.Y. 10005

Richard M. Sword
Associate
Wm. Sword & Co. Incorporated
22 Chambers Street
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J. Paul Hellstrom, Jr.
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New York, N.Y. 10005

Charles C. Pierce, Jr.
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1200 Mercantile Dallas
Building
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A. Robert Towbin
Partner
L. F. Rothschild, Unterberg, Towbin
55 Water Street
New York, N.Y. 10042

William M. Kearns, Jr.
Managing Director
Lehman Brothers Kuhn Loeb,
Incorporated
One William Street
New York, N.Y. 10005

Robert A. Podesta
Chairman
Altorfer, Podesta, Woolard & Company
135 South LaSalle Street
Chicago, ILL. 60603

Frank L. McHugh (*Staff Advisor*)
*Secretary and Director of
Special Service Projects*
Securities Industry Association
20 Broad Street
New York, N.Y. 10005

Peter K. Loeb
Managing Director
Shearson Loeb Rhoades Inc.
14 Wall Street
New York, N.Y. 10005

Robert P. Seeber
Partner
Manley, Bennett, McDonald & Co.
100 Renaissance Center
Detroit, MI 48243

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INTRODUCTION

It is with great pleasure that we welcome readers to the Handbook. We hope that entrepreneurs will find the Handbook to be a useful document. Minority persons can be assured that every effort has been made to arm each person with the realities of raising capital. The guidelines and material have been extracted from actual experience and are written in a manner we feel will be helpful in imparting our knowledge of capital markets.

This Handbook is intended to provide minority entrepreneurs with a brief and realistic guide to the process of raising capital and with a listing of sources that provide such capital. It is not intended to be the authoritative publication on raising capital or an all-inclusive directory of capital sources. The goal is simply to assist minority businesspersons in the initial search for capital.

The intent is not to discourage any minority entrepreneur; rather, to present the realities and difficulties of raising capital. The emphasis is on the search for capital to start a new enterprise or buy an existing business. These types of business ventures are usually characterized as "venture capital situations." They are typically viewed by potential investors* as involving a higher degree of risk than investments in existing businesses with proven management and a record of earnings. This risk makes the search for venture capital extremely difficult.

The process of raising venture or risk capital is essentially the same for a minority person as for any entrepreneur: investors must be convinced that the entrepreneurs can operate a profitable business and provide a return on their invested capital. Theoretically, any capital source is a potential investor in a minority-owned enterprise. However, the realities are that minority-oriented investors and lenders will be more receptive and often participate on more favorable terms than conventional sources of capital.

Potential sources of capital for minority entrepreneurs, such as banks, Small Business Investment Corporations (SBICs), Minority Enterprise Small Business Investment Corporations (MESBICs), private investors and corporations are discussed, and an analysis of the relative merits and prospects of successfully raising capital from each source is presented. Specific sources and their investment criteria are listed.

It is imperative that an entrepreneur recognize that the time interval required to complete a transaction successfully will be much longer than initially expected. The process of raising capital may be easier to understand after reading the handbook; however, the ultimate success in obtaining adequate financing will depend solely upon the entrepreneur. It will depend upon the entrepreneur's persistence, resourcefulness, and, to a degree, luck.

I feel we have been of assistance if readers conclude that the Handbook is straightforward and to the point.

Ira D. Hall, Jr.

* The term "investor" applies to both lenders and equity investors.

THE PROCESS OF RAISING CAPITAL

THE REALITIES

Raising capital for a business venture is a very frustrating, tedious and time-consuming task, even if the entrepreneur is not a minority group member and has personal capital to invest in the business. Minorities will find the task even more difficult and frustrating. Until the formation of "special" sources of minority capital, starting with the formation of the MESBIC's in 1969, minority entrepreneurs found it virtually impossible to obtain any reasonable amount of venture capital.

Raising capital is not an easy task — it must be approached with a great deal of planning and preparation. The entrepreneur will have to successfully execute all of the steps of a plan to raise the needed amount of capital.

A sobering fact to remember is that most non-minority entrepreneurs are not successful in raising funds for their ventures and, more importantly, most ventures, even if funded, do not become successful businesses. The minority entrepreneur should not be overwhelmed by this fact. Instead, the entrepreneur should understand the difficulty of raising capital and managing a successful business. The task of searching for capital should begin only when the entrepreneurial team is convinced that it can operate a business which will generate profits and provide a return to the investors.

Venture capital investors often complain that "there aren't enough good deals around." Entrepreneurs often claim that "there aren't any investors around." Clearly, the entrepreneur's job is to bridge the gap: to locate, select and convince investors that the proposed business venture is the exception and is worthy of capital.

A helpful asset in raising capital involves having "contacts" with people who can introduce the entrepreneur to sources of capital. The entrepreneur may feel that potential investors are unnecessarily suspicious and are constantly evaluating the entrepreneur, regardless of a previous track record and a past business history. This unpleasant and sometimes unnerving experience is the same for any non-minority entrepreneur who does not have well connected friends who can vouch for his or her experience, competence, honesty, drive and capacity to work hard. The entrepreneur without creditable contacts should begin immediately to cultivate relationships with well respected businesspersons.

INTERMEDIARIES AND FINANCIAL ADVISORS

Ideally, an entrepreneur should attempt to locate an intermediary or financial advisor to act as a personal representative and confidant of the entrepreneur. Retired businesspeople, bankers, accountants, attorneys, management and marketing consultants, investment bankers, corporate finance departments of banks, business brokers, and certain privately and federally funded minority-oriented technical assistance groups might be prospective advisors. An ideal advisor might also be a businessperson with experience in the same industry as the venture.

If fortunate enough to locate someone willing to provide assistance, the entrepreneur should exercise care and thoroughly examine the competence, dedication and availability of an individual or group before relying on such assistance. Keep in mind that the ideal advisor may not be willing, nor in a position, to provide any investment capital.

It is helpful that the financial advisor be known to, and have a good reputation with, investors. An advisor must also be enthusiastic about the venture and be respected and trusted by the entrepreneur.

An advisor's knowledge of investors and investment criteria is extremely valuable in the capital raising process. The advisor might be able to critique the business plan and review financial strategies; analyze market conditions for the type of capital the business needs; assist in redrafting the financial proposal; restructure deals and suggest the most favorable terms, rates and covenants; introduce the entrepreneur to the institutional investors; assist during negotiations; monitor and assist in reducing a transaction to a written agreement; or generally assist in all phases anticipating and solving problems.

Clearly, a financial advisor's complete involvement means that considerable energy will be expended and the advisor's valuable resources will be used. Very few talented, profit-oriented businesspersons will provide free services. This brings up the question of working with someone who does not charge fees or who charges fair and comparable fees. The entrepreneur should seek out an advisor who brings the most value in getting the financing completed. A good advisor can minimize the cost of the financing in terms of interest rate or the ownership dilution. Therefore, fair compensation to the right advisor often can actually save the entrepreneur money in the long run. Also, the greater portion of an advisor's financial compensation is typically paid out of the proceeds of the financing if the deal is completed.

The minority entrepreneur should not be intimidated by the so-called prominence of an advisor and should realize that the wrong choice of advisor can delay or ruin the chances to get capital and, maybe, the entire business. By the same token, an advisor who is forthright can save the entrepreneur from spinning wheels, maybe even by suggesting that the business venture is not worth pursuing because of inherent problems.

Investment bankers and brokers might be able to serve as important intermediaries for entrepreneurs. The investment bankers listed in the front of this handbook have agreed to serve as members of the Security Industry Association's Minority Capital Committee. Each has volunteered to learn about investors in his or her areas that are interested in working on minority financings. An investment banker in the entrepreneur's local area may be helpful in providing leads and information.

ASSESSING FINANCIAL NEEDS

The most important factor for any investor is the amount of funds the venture will require. Before the task of approaching potential investors can begin, the entrepreneur has to determine the amount and type of capital required to finance the business venture. The entrepreneur must also estimate the projected sales, expenses and income of the business. Only then can the entrepreneur determine if the profit potential justifies the risk of entering the business venture.

To determine whether the cost of capital can be supported by the business' future earnings, it is essential that an operating plan be written which describes and considers in detail various aspects of the company's activities. (See pp. 10-14.) The following have to be considered: capital expenditure budgets, cash flow projections, income statements, balance sheets, personnel requirements, marketing projections and many other factors. The object is to describe, in detail, the business's operation from an operating and financial point of view.

If the entrepreneur is convinced of the venture's viability, after using realistic assumptions to assess the company's financial needs, then the search for capital can be initiated. It is of paramount importance to use facts and to recheck the capital needed and the venture's viability, assuming reduced sales.

If the entrepreneur or a member of his or her team cannot personally assess the financial needs and do the financial forecasting, it is essential that someone with financial expertise be added to the management team or an advisor with financial expertise be brought into the picture. Sharing a deal with competent individuals may mean the difference between business success or failure.

APPROACHING THE IDEAL INVESTOR

A new business venture begins with an idea and a business plan. The new business may be created to supply an existing or a new product or service to an identified market, or an existing company may be purchased that is already supplying a product or service. In either case, the entrepreneur may need capital just to get to the stage where there is an idea or a business to finance. Except in those cases when the entrepreneur or the entrepreneurial team has sufficient personal resources, the initial "seed" capital for the business venture may have to be raised from outside sources. The principles of raising seed capital will also be similar to those used at any later stages of financing when more sophisticated institutional types of investors are approached.

Raising Seed Capital

Seed capital might typically be used: a) to perform feasibility studies; b) to develop a prototype product; c) to lay the groundwork for the purchase of an existing business; d) for investigation trip expenses, legal and accounting fees; and e) for deposits required to purchase option agreements.

There are reasons why most all investors, especially those that are institutionalized, tend to avoid seed capital situations. Typical reasons are:

- The entrepreneur has no track record or proven business experience.
- It is usually impossible to assess the probability of success of a venture in the embryonic stage.
- The initial seed capital required may be too small an amount of money or the venture's profit potential is not large enough to justify the investor's efforts.
- The investor prefers to see that others have spent money developing the venture before getting involved.

Care should be exercised by entrepreneurs during the seed capital stage to avoid the previous problems. Also, this stage provides potential sophisticated investors with a record of performance which can be used to evaluate the business ability of the entrepreneur. An investor will typically be interested in the following aspects of the seed capital stage:

- Is there merit to the proposed venture?
- Did the entrepreneur proceed in a systematic manner?
- Was the entrepreneur able to sell personal skills and ability to others?
- Has the entrepreneur been perseverant and diligent? Has he or she been committed to the venture on a consistent basis? Will the same level of commitment continue?
- Have necessary personal financial sacrifices been made and has the entrepreneur shown a willingness to make further sacrifices?
- Have setbacks and disappointments been handled properly?
- Has the entrepreneur established realistic business projections?
- Has the entrepreneur been able to budget the use of time and money effectively?
- Has the entrepreneur been able to convince others of the soundness of the business venture?
- Have those who know the entrepreneur expressed their confidence by investing in the venture?

If the entrepreneur cannot give affirmative answers to most of the questions above, the individual is probably not ready to approach sophisticated investors. The sophisticated investor is looking for initial evidence of qualities in the entrepreneur that will be essential to the future success of a venture. Because of these factors, the entrepreneur should be extremely careful in the seed capital stage. If this stage is handled poorly, the entrepreneur's future ability to raise funds may be severely jeopardized.

Pitfalls to Avoid

In raising seed capital, there are many pitfalls an entrepreneur should avoid. The problems that arise most frequently when dealing with investors are:

- The investor who desires to make a fast profit and is not really concerned with the entrepreneur's welfare or the long-range success of the business venture.
- The investor who is unethical or has a bad reputation.
- The investor who is incompatible with the entrepreneur.
- The investor who promises money, but dispenses the cash very slowly, or not at all.
- The investor who desires to run a business of his or her own and begins to move the entrepreneur aside if the venture succeeds.
- The "investor" who expresses great interest in a project, but who really does not intend, or cannot afford, to make an investment.
- The investor who is socially oriented, but lacks a business orientation or who is unwilling to make the tough decisions to ensure economic survival of the business.

In addition to having the necessary abilities, the entrepreneur must be able to convince an investor that the entrepreneur is committed to the success of the venture. The most obvious sign of commitment to a venture is the dedication of the entrepreneur's own financial resources. These may include cash from a second mortgage on a house, sale of a car, a loan borrowed on an insurance policy, personal savings and income or personal lines of credit from banks. The other primary and likely seed capital source consists of individuals. Entrepreneurs should also canvass relatives, friends, close acquaintances, associates, and former employees and employers.

The minority entrepreneur should realize that the search for seed capital is a lonely process. Resourcefulness and persistence are essential in raising capital.

Raising Institutional Capital

Many representatives of institutionalized sources of capital have a practice of talking with most, if not all, entrepreneurs. The entrepreneur should not use up good will early in the life of the venture by asking inappropriate institutional sources for seed capital. The personally known sources of initial capital should be contacted before attempting to approach sophisticated investors. When the entrepreneur has exhausted these sources and the investment required is of a "reasonable" size, an institutional investor, such as a venture capital firm, SBIC, or MESBIC, is more likely to provide additional seed or venture capital. Chances of receiving financial assistance are considerably greater when some capital has been invested prior to approaching institutional investment sources.

In deciding which institutional investors to approach, the entrepreneur should think about the characteristics of each source. (Many of these same characteristics apply equally as well to the seed capital stage.)

- Can the investor give more than money? Contacts, management assistance, legal advice, financial services, creditability and moral support are profoundly important to a new business.
- Are they compatible with and knowledgeable about the proposed business?
- Is the investor competent, aggressive, creative and a capable problem solver?
- Does the investor have sufficient resources to supply a second round of financing, if needed? Will the investor be in business in the future?
- Has the investor been in successful financings?
- Does the investor show evidence of experience and sound judgment?
- Are you dealing with the individual who has the authority to make a decision and does he or she operate in a timely fashion?

In order to assess and decide which investor will be a better "partner," the entrepreneur should ask personal questions such as:

- Is the business venture just an idea for a small business with no great potential growth, or can the business be expanded into a large company?
- What is the nature and degree of the business risk?
- Will the business create jobs for minority workers?
- Will the business serve minority and/or non-minority markets?
- Does the business have the potential to become a prominent minority-owned business?

The entrepreneur should, at this stage, be aware of the investor's expressed and implied investment objectives:

- Return on Investment is the primary objective of investors. Generally, there is a direct relationship between the amount of risk the investor will accept and the expected rate of return. The entrepreneur can judge the expected return demanded by various investors by discussing and evaluating the risk they have taken in other ventures. Few investors are willing to accept all of the risk of a single business venture by supplying all of the needed capital. Instead, investors will either ask other known investors to participate in the supplying of capital, or insist that the entrepreneur find other sources to supply a portion of the capital. The investor's demands to purchase or receive equity in the form of warrants or a convertible security typically increase with the riskiness of the venture.
- Liquidity is the ease with which an investment can be converted back into cash. If an equity or debt investor makes an unwise investment decision in a private business venture that has a problem in surviving, the investor's only choices are to walk away and lose the entire investment; put additional money in the business; invite other investors into the deal, possibly causing a loss in ownership percentage; or try to force a sale of the company, at prices that the entrepreneur/owner may consider unreasonably low. Regardless of the venture's performance, the investor becomes "wedded" to an investment in a private company. Equity investors generally rely on three methods to obtain liquidity in successful business ventures. First, the equity interest could be sold should the company grow large enough to gain access to the public market. Second, the equity interest might be sold when the company is either acquired by or merged into a larger

company for either cash or securities. Finally, it is theoretically possible that the entrepreneur or the company might be able to buy back the investor's equity interest from future profits. The minority investor should realize that equity investments are more difficult to obtain because these traditional methods are often unavailable for smaller companies.

In searching for capital, the entrepreneur should be careful to realize that an expression of interest by an investor and a promise to invest "if things look good" is far from a guarantee of funds. Many investors, both institutional and individual, do not know how to say no to a proposal and may unnecessarily postpone or delay a decision. It is very important to get a firm time commitment for a decision from the potential investor. Until the cash has been received or a signed agreement exists, the entrepreneur should not consider the financing completed.

Remember that an investor may be either one's best friend or worst enemy. The entrepreneur should compare objectives, resources and the methods of operation of potential investors and eliminate those who are not suitable nor truly interested in the proposed venture.

It is most important for the entrepreneur to start the search for capital long before actually needing the funds. An entrepreneur who "needs the money yesterday" only comes across as a non-planner.

EVALUATION CRITERIA OF INVESTORS

There are almost no fixed decision rules in the venture capital field; however, it is possible to compile a set of composite criteria used by many investors. The entrepreneur should be fully aware of these criteria in preparing a campaign to raise funds.

The evaluations of an investment opportunity can be separated into two areas: the people involved and the concept of the venture itself. *Most investors agree that the people involved in the venture are far more important than the idea behind the venture.*

Evaluating the Entrepreneurial Team

Business Background — The investor will always check the entrepreneur's background and history to judge personal integrity and reliability. If anything disreputable is uncovered, the entrepreneur's likelihood of raising money is nil. Likewise, if the entrepreneur attempts to hide or fails to mention a significant part of the past, such as being fired from a job, the investor may conclude that the entrepreneur is not straightforward enough to warrant a business relationship.

Evaluating people is very difficult; it is easy to review a person's past record, but quite another thing to predict how an individual will perform in a new business environment. Even when an entrepreneur's past record is impeccable, there can be substantial risks. This is another reason why potential entrepreneurs should be extremely careful as to whom they "get in bed with" in the seed capital stage. Minority individuals who have worked successfully at large corporations or have successfully run their own businesses are often regarded (rightly or wrongly) as the best entrepreneurs to back.

Individual Abilities and Demonstrated Competence — The investor wants to investigate the entrepreneur's areas of competence. Technical ability is of concern, but more important is an awareness of business operations and an ability to manage a growing organization. All too often, the ideal entrepreneur is not the ideal manager for the business once it becomes a going concern. Most investors prefer to see a group of individuals with various complementary abilities and goals. Since it is unlikely that one person will possess qualified skill in sales, marketing, management, administration, finance and opera-

tions at the required level of expertise, the investor must also look at the qualifications of others who have been selected to strengthen the management team. With a group, the investor is more assured of getting a broad range of skills and is also reducing the venture's dependence upon any one individual.

The ability of the entrepreneur to be flexible and meet unforeseen challenges of problems is necessary. In many instances, the original idea or product that a venture is founded upon does not work out. Investors like to feel that the entrepreneur is not so wedded to an idea that he or she will pursue it in an unrealistic manner. If the idea or product upon which expansion plans were based fails, the entrepreneur and the management team must be flexible enough to adjust.

Virtually all investors make a great effort to avoid ending up in a management role in one of their ventures. If the entrepreneurs originating a venture appear unable to manage the business, an investor will almost invariably turn the deal down, regardless of the venture's promise. Investors, however, have added new individuals to a group of founders to strengthen the management team.

Attitudes and Ambitions — It is important to both the investor and the entrepreneur that their goals and methods are mutually compatible. Factors of "body chemistry" and "personality" are of primary importance. The list of specific qualities considered to be important by investors is essentially limitless. Among those most commonly mentioned are: drive, dedication, perseverance, determination, creativity, resourcefulness and the ability to lead and motivate others.

In some ventures, the investor may supply additional funds, either to finance growth or to save the company. Therefore, regardless of the success or failure of the venture, there should be a working relationship between the parties and a capacity on the part of the investor to provide additional funds.

Most investors like to see humility in the entrepreneur. When the entrepreneur has limitations, it is essential to have an awareness of them and be willing to accept some assistance and suggestions from the investor. The "knows it all" individual is considered dangerous regardless of the talent shown. Although aggressiveness and confidence are desired to some extent, investors are easily scared away by "hot shots" who make the venture look too easy.

Minority entrepreneurs must not convey the impression that they feel that their businesses will succeed purely on the basis of being minority businesses. It is absolutely essential that entrepreneurs not exhibit an attitude that, just because they belong to a minority group, they can dispense with the procedures and frustrations that non-minorities must contend with to run a business. Operating a business, as does raising money, requires hard work, patience and considerable psychological self-conditioning.

Evaluating the Venture

Appeal of the Product or Service — In evaluating a venture, the first aspect an investor must consider is the nature of the product or service. The most attractive of ventures appeals to a broadly based market and satisfies a basic need. The uniqueness of the product or service and the reasons which make it superior to others currently being marketed are also evaluated by the investor. It is important that the entrepreneur's analysis of the market be thorough and convincing. Patents, proprietary rights or innovative marketing, production or distribution methods that have been proven more efficient tend to make a venture appealing.

Timing — Although a market for the product or service may exist at a given moment, the investor looks at the future, for unforeseen development problems, cost overruns, and changes in the competitive environment that can reduce the chances of success of a business.

Competition — In order to evaluate the entrepreneur's ability to compete, the investor needs to know the nature of the entrepreneur's competitors. In addition, the investor must analyze whether the competition will react to challenges by lowering prices, improving service, or increasing promotional efforts. The investor must also know how the entrepreneur proposes to counteract these actions.

Potential Return — The investor also assesses the potential return on the investment offered by the project as measured against the particular investment criteria of the investor.

Suitability of the Venture for the Investor — An initial factor is the general suitability of the venture for the particular investor. The following is a list of factors that are frequently relevant in the decision-making process:

- If the investor tends to specialize, is this opportunity within his or her geographic area, technical area of competence, industry, or size of investment desired?
- Does this fit the image of the investor or is it "distasteful" for non-financial reasons?
- Is this a situation where the investor can contribute something more than money to the venture?

Non-Financial Return — Sources of capital vary widely in their emphasis on the importance of non-financial returns from investments. Unlike many conventional venture capital sources, many minority-oriented investors place heavy emphasis on the "social" aspects of their investments. Many sources evaluate investment success not entirely by financial return, but rather by the number of jobs generated, the size of the minority enterprise, and the "visibility" of the investment. Investors examine both the financial and non-financial aspects of a deal for consistency with investment policy and criteria.

Assessing the Probability of Success — Part of the difficulty in raising capital is that the performance of most investments is strikingly poor. A successful portfolio of 20 investments in non-minority venture capital situations might contain the following:

Financial Record

- 1 deal — very successful
- 3 deals — fairly successful
- 6 deals — break-even
- 4 deals — very poor
- 6 deals — complete losses

Therefore, the minority entrepreneur must understand the magnitude and difficulty of convincing an investor to take perhaps an even greater degree of risk by investing in a minority-owned enterprise.

At first, an investor may find a venture deceptively promising. The investor must be, to the entrepreneur's dislike, a "devil's advocate" in the evaluation of the venture. Investors must avoid being carried away by the over-enthusiasm that most entrepreneurs have for their ideas. Depending upon the experience of the investor, an overly cautious and meticulous approach in evaluating a situation may result. Due to a combination of inexperience and overwork, some sources of minority capital may be exceedingly slow in this phase. Beware of an investor who is overly concerned with "financial ratios" and does not grasp the key elements of the proposed business.

Most investors look not only at the potential success of a business, but at the downside risk of the investment as well. Some investors tend to look more at the security aspect of their investment, while other investors seem to be more concerned with what they stand to gain and not with what they stand to lose.

The investor also likes to see something unique in the venture that improves its chances for success. Qualities such as an entrepreneur's special skill or experience as an executive with a major corporation, a market name, a contract, a proprietary product, or a patent are factors that add credibility to a venture.

Equity Division — Most experienced investors realize the importance of motivating the entrepreneur to put his or her best effort into a venture. In cases where the entrepreneur is primarily motivated by financial reward, investors like to see that the individual has an opportunity to prosper if the venture succeeds. Typically, many of the minority-oriented investors like to see the entrepreneur get a major equity participation even if the individual does not have a significant amount of personal capital to invest.

PRESENTING A PROPOSAL TO AN INVESTOR

The presentation of a proposed venture to an investor is one of the crucial aspects of raising capital.

The entrepreneur's method of presenting the proposal is as important as the actual facts and ideas expressed. Because the tone and manner of the presentation can reveal a great deal about the entrepreneur, the investor looks for such things as:

- Is the entrepreneur organized? Has the particular program been thought out? Does the entrepreneur have a proper time perspective? Does the entrepreneur have a plan? If the individual cannot organize the presentation, how can the person organize a company?
- Does the entrepreneur admit to the pitfalls, risks and problems likely to be encountered? If the individual does not discuss these problems, either the entrepreneur is trying to conceal them or personally has not thoroughly thought out the problems.
- Does the entrepreneur admit personal weaknesses? A person who does not admit to any weakness may be difficult to work with and may have trouble organizing and building a company.
- Has the individual logically sought advice and counsel in preparing the presentation, or has the entrepreneur gone rushing ahead with an ill-conceived campaign to raise money?
- Is the entrepreneur a salesperson capable of presenting a pleasing but convincing personal image? To be successful in almost any venture, the entrepreneur must be a salesperson to a major extent.
- The minority entrepreneur should spend the necessary time in determining who has to be sold, how the program should be shaped, and what material, facts or background work is necessary to support the objectives.
- Is the entrepreneur realistic and aware of the information needed by a prospective investor? If he or she is oblivious to the investor's point of view and methods of operation, this attitude can lead to disagreements after the investment is made.
- How is the entrepreneur's presentation oriented? Is the presentation concerned just with technology, production, finance, or marketing?
- What areas are left out? By allowing the entrepreneur to have complete freedom in making a presentation, the investor can evaluate the entrepreneur's awareness of what will make the business operate. When major areas are not discussed in detail, it indicates that the entrepreneur is either inexperienced or unconcerned with such areas. This has profound implications on how the individual may operate the business.

- Most investors stress the importance of an awareness of the profit motive, cost control, and the marketing area.
- Has the entrepreneur shown a proper time perspective? Has the search for funds started well in advance of actual needs? A lack of such foresight suggests a potential managerial weakness in the areas of budgeting and allocation of resources.

In addition to evaluating the general tone of the written presentation, the investor usually looks for specific terms and areas which should be covered in the actual presentation:

Format

The entire presentation should be concise, organized and neatly prepared in type-written form. It should include all pertinent information and parallel the oral presentation. It is imperative to have the presentation reviewed by an experienced advisor if such an advisor did not assist in the preparation. A qualified, impartial critic improves a presentation. (See the sample presentation format.)

Plan

A well thought out plan for the venture's future (1, 2, 3, and 5 years) is preferred. This plan should contain the following information and projections: complete projected financial information, including cash flows, pro forma income statements and balance sheets, and financing requirements; detailed marketing information; production schedules, and relevant technical factors. In addition, the entrepreneur should state his or her personal objectives for the future.

Realism

Plans should be realistic rather than extreme. Many investors are skeptical of grandiose ideas of any kind. Grossly over-optimistic profit projections will scare investors away, rather than attract them.

Financial and Business History

A detailed history should include all the facts relevant to the venture or company, including descriptions of key personnel, financial information, production data, product lines, marketing programs, management techniques, customers, suppliers, bank and investor relationships, and past and potential problem areas. It is important that the entrepreneur reveal all facts, for it will make the investigation easier for the investor and may shorten the time required to evaluate the venture.

Weaknesses

The entrepreneur should verbally discuss personal areas of weakness, because a competent investor will usually uncover them during the investigation. Entrepreneurs should discuss where they need assistance or must correct a deficiency, such as locating a good production person, getting someone with management experience, or establishing trade relations.

A Sample Proposal Outline

1. Financing

- Amount requested
- Purpose and use of funds
- Structure of deal
- Capitalization

2. Description of the Company

- Name and location
- Nature of business
- Product
- Facilities
- Market and competition
- Competitive advantage
- Investment appeal

3. Risk Factors

- Management expertise
- Stage of product development
- Market trends
- Competition

4. Business Plan

- Objectives
- The product or service

5. The Market

- Description
- Competition
- Trends

6. Competition

- Size
- Experience
- Orientation
- Changes

7. Sales and Marketing

- Strategy
- Method
- Pricing policy

8. Production Process

- Materials
- Supply sources
- Methods

9. Distribution and Service

- Strategy
- Method

10. Facilities

- Location
- Size
- Age and condition
- Planned capital improvements
- Expansion opportunities

11. Management Organization and Personnel

- Management structure
- Description of directors
- Responsibility of officers
- Resumes of key members
- Description of staff organization

12. Expenses

- Fixed overhead
- Variable
- Provisions for increases

13. Financial Information

- Balance sheets
- Income statements
- Cash flow analysis
- Break-even analysis
- Explanation of projections
- Earnings and potential return to investors
- Payback

14. Conclusions

- Assessment of opportunities
- Status of the company

It is important that the entrepreneur understand how involved the particular investor likes to get in the venture. Some investors will want to help the entrepreneur solve these problems whereas others, who do not like to get involved in management, will be more concerned with how the individual intends to solve these problems. An experienced advisor can be valuable in this area.

Products or Services

If the venture involves a new product or service, investors would like to see actual sales of the product or service, or definite orders or contracts. Market studies, "promises" to buy, or expressions of interest are not considered to be reliable. The farther removed the product or service is from the marketing stage, the less interested the investor becomes. A detailed plan of how the product or service is to be sold is essential. Too many entrepreneurs think that a good product or service will sell itself — this is usually a fallacy. The reality is that a minority entrepreneur cannot rely completely on being a minority vendor — the company still must perform and deliver quality products or services at competitive prices.

INVESTIGATION AND NEGOTIATION STAGES

Investigation

An entrepreneur might best approach no more than half a dozen investors at once. In a short period of time, each potential investor should be able to give the entrepreneur an indication of the degree of interest in the venture. When potential investors drop out, it is important to replace them by showing the deal to others. Typical reactions to 100 proposals (from non-minorities) presented for review by an investor might be:

- 50 discarded immediately within fifteen minutes.
- 30 eliminated within several hours.
- 10 eliminated after a close study of a week.
- 7-9 eliminated after a detailed study of several weeks.
- 1-3 accepted after a detailed study of several months.

After several investors have indicated a strong interest in a proposal, the entrepreneur should refrain from initiating discussions with new investors and must be careful not to create the image of "shopping around." On the other hand, entrepreneurs should make certain that several potential investors are always actively looking at the deal. It is imperative that the entrepreneur be sure that the investor is seriously interested. Investors who look at deals and continually ask questions but do not make investments are one of the entrepreneurs biggest pitfalls.

If the investment involves an existing business, the investor will usually send someone to the company's facilities to observe operations and see how the management handles daily problems. The investor may seek information about the company from other sources: suppliers, customers, distributors, and employees are among those often contacted.

The investigation will blend into the negotiation stage as the investor feels comfortable, has been able to verify the entrepreneur's presentation, and is convinced that the venture is potentially attractive. It is in this stage that the investor begins to suggest certain changes that will make the deal more attractive from his or her perspective.

In all but the most straightforward situations, the deal structure that evolves is quite different from the proposal first presented. Often, unforeseen obstacles have to be overcome before the deal can be made, and depending upon the complexity of the situation, negotiations may take from one week to one year (with an average of approximately two months).

The negotiations usually center around creating a "package" that will satisfy both the entrepreneur's need for capital and the investor's desires. Aside from the actual amounts of money involved, the three primary controllable factors in most deals, especially when there is a combined equity-loan package, are:

- Percentage of equity given to the investors.
- Debt covenants and the amount of security given to the investor.
- Interest rates and conversion privileges.

Percentage of Ownership — The distribution of the equity in any deal depends largely upon the contribution of the parties involved and the amount of risk assumed by each. The farther along a venture is from the initial seed stage, the greater the share of equity the entrepreneur should be able to retain. Most investors like to make certain that the entrepreneur will be motivated to make the venture succeed, and, consequently, either leave the individual with an attractive portion of the equity or provide an option which allows purchase of additional shares.

The issue of control, which is closely tied to equity, is one that varies with each investor. As a general rule, most investors will accept a non-controlling interest provided that the entrepreneur appears receptive to advice and that there are sufficient protective covenants in the agreement.

Covenants — Most investors insist on having some means of protecting their investment if problems develop. The usual covenants are similar to those in a bank loan. Typically, the investor might have the power to take control under the following circumstances:

- Working capital falls below certain limits.
- Sales are not at a specified level.
- An agreed upon profit has not been realized.
- Net worth is below a certain amount.

In most instances, the entrepreneur is willing to agree to such covenants because of personal expectations which exceed the levels that the investor believes are realistic.

Many investors state that they will usually give the entrepreneur the amount of money they think is necessary, rather than the amount requested by the entrepreneur. In certain instances the amount may be more than requested. A common covenant, however, is to " earmark " these funds for specific areas. For example, the investor might allocate the amounts to be used for marketing, production, or for increasing working capital. They might also insist that the funds spent in other areas be limited to prevent excesses in such things as inventory or plant and promotion expense. These types of covenants are most frequently used when the investor notices that the enterprise needs strengthening in one area or that the entrepreneur is prone to get carried away with certain types of expenditures.

Interest Rate and Conversion Privilege — In addition to straight equity investments, investors may use some form of debt, preferred stock, convertible debentures or debt with warrants. Interest rates on these debentures range upward from nine percent. In instances when the venture's earnings would be unable to cover the fixed charges, the interest rate will be relatively low, deferred, or stepped up at a later time. The investor may expect to realize profit later through conversion into stock and capital gains or dividends.

An entrepreneur should be skeptical of any proposal to obtain funds on a straight loan basis without sufficient equity. In most cases, an entrepreneur underestimates the needs for funds. If the company borrows money at high interest rates, the business may incur large liabilities with high fixed charges and a very unsympathetic financial partner.

Personal Guarantees — It is not unusual for investors to insist on personal guarantees by the entrepreneurs to insure that the entrepreneurs are fully committed to the venture. An entrepreneur should not volunteer such a guarantee unless demanded by the investor.

In the final stages of the negotiations, it is imperative that good legal counsel be present. The legal advice not only protects both parties, but also ensures that the venture's legal structure is on a sound footing from the start.

POST FINANCING RELATIONSHIPS

Seldom is the relationship between the investor and the management a distant one. Although investors want to avoid becoming involved in the daily operations of their portfolio companies, they usually take an active interest in the affairs of the venture.

In order to increase the company's chances of success, some investors are capable of providing a variety of helpful functions. Moral support for the entrepreneur/manager can be offered by investors. It is important that the individuals managing the company not become discouraged, as they must maintain the morale of their employees. The investor is an interested person outside the company in whom the entrepreneur can confide about problems. The wrong type of investor, of course, could make things worse in this regard by applying too much pressure on the entrepreneur at just the time when assistance and encouragement are needed.

The investor also serves as an informal mediator and helps resolve conflicts within the organization. Conflicts often occur in cases where several persons have started the enterprise together. Having an interested investor as a mediator has often held many ventures together when they would otherwise have fallen apart.

Often contacts with banks, industrial firms, investment bankers, and consultants are provided by the investor. The presence of a respected investor will greatly increase the prestige of the company. Because of an investor's participation, banks often may make loans to a company which they normally would not have considered.

Investors are also able to effect necessary personnel changes. Often, the original president was not capable or did not want to face the increasing pressures demanded from them by the growth of the company. Through their many contacts, an investor might be able to help locate personnel to fill important positions in a company.

Many investors are not willing or are unable to provide these types of services. Often, the investor becomes involved only when conditions are such that action is necessary to save the company.

POTENTIAL SOURCES OF CAPITAL

Any person, company, government agency, or entity with capital is a potential investor; however, most avoid venture capital situations. The sources of venture capital funds frequently are:

INDIVIDUAL INVESTORS

Well to do individuals may be inclined to accept greater risks for higher profit potential than institutionalized investors, particularly when they are in a high personal income tax bracket. Doctors, lawyers, other professional people, athletes and entertainers are potential sources of investment in minority owned and operated businesses. The reality, however, is that such investors are virtually impossible to approach. Most employ investment counselors or managers and avoid direct solicitations from entrepreneurs. They must be approached through other means, such as organized venture capital groups or financial advisors.

Because of the inaccessibility of wealthy individuals who are not personally known, friends, relatives, associates and former employees are extremely important sources of capital. In many cases, seed capital raised from individuals must carry the company to the point where institutional investors can be convinced that the product or service is viable.

INSTITUTIONAL SOURCES OF CAPITAL

Once the process of raising seed capital has been completed and all conceivable sources have been exhausted, the entrepreneur must approach institutional investors. A comprehensive description of institutional investors and their investment programs lies beyond the scope of this Handbook. Briefly, however, selected sources are discussed.

Preliminary to the writing of this Handbook, a number of financial institutions were contacted. The following represent the current trends in each of these areas, but is not intended as a guarantee that each institution will respond in the identical fashion.

Commercial Banks

Although several types of debt financing are available from banks, all have certain common characteristics. Loans are generally short-term or medium-term in length (less than 10 years) and are usually made to established businesses where repayment is virtually certain. This does not mean that banks are never involved in higher risk, or long-term lending. It does mean, however, that banks are conservative lenders and tend to be reluctant to involve themselves in higher risk situations. Start-ups are one example of investments that banks typically avoid. In contrast, the purchase of a company, which is usually more risky than loans to established businesses, is occasionally considered. Because of the conservative practices of banks, most loans made to minority business people are guaranteed by the Small Business Administration (SBA). Loans to minority entrepreneurs seem to consist of two types. The first are loans to companies which are traditionally leveraged and qualify as conventional credit risks. Most of these loans are administered through normal commercial lending programs. Certain banks state that good, attractive minority deals "are scarce," but that minority entrepreneurs with "solid deals" should have a relatively easy time obtaining financing at competitive prices.

In order to process more effectively high risk loan applications and in order to utilize the Small Business Administration lending programs, many banks have established depart-

ments which specialize in non-conventional lending situations (usually called Urban or Economic Development loan areas).

Because of their familiarity with unconventional credit risks and intimate knowledge of the appropriate SBA programs, these departments often are able to provide bank financing to companies whose loan applications would normally be immediately rejected. However, with an SBA guarantee for 90 percent of the value of the loan, many of these loans are made.

Many banks which formally utilize SBA guarantees have minimum investment standards of \$50,000-\$100,000. In fact, some feel that it is not possible to evaluate the proposal, administer the loan, and risk collection problems or non-payment for sums of less than \$100,000. In contrast, some banks pursue an "ambitious" minority lending program and will consider loans of \$25,000. The average size investment for banks range from \$100,000 to a high of \$200,000. The maximum available to companies through banks under an individual SBA program is \$550,000. However, in certain types of programs, \$1.1 million can be borrowed.

Most banks contacted desired to be represented publicly as diversified lenders. In private, however, many admitted a preference toward "well-established manufacturing concerns with a proven track record." Others disclosed a lack of enthusiasm about real estate or retail companies. Start-up situations were generally viewed with some degree of caution. One bank which seemed to have an extremely diverse portfolio stated that, although start-ups are considered, "such ventures must be more traditionally leveraged."

Consulting services at the banks contacted are not provided directly, but are available through the SBA. Several of the banks suggested that the SBA consulting services be used prior to the presentation of the loan application. Experience has shown, however, that those banks that have in-house experts familiar with the processing of SBA loans are usually less difficult to deal with than banks that do not provide these consulting services. The improved proposal, which should result from consultation with the SBA, may often increase chances for approval by a bank.

Small Business Administration (SBA)

The primary emphasis of SBA assistance programs involves guaranteeing payment of loans made to small businesses.

In order to qualify for a direct SBA loan, application is first made to a bank. Although the SBA is only interested in making loans to a company that can repay the loan its standards are usually somewhat less stringent than those of banks. Approximately 20 to 30 percent of the needed capital for the venture must be raised from other sources by the entrepreneur and 90 percent of the funds borrowed (or \$500,000, whichever is less) can be guaranteed by the SBA. Interest rates on guaranteed loans average two to three percent above the prime rate charged by banks; a ceiling exists on the maximum amount charged.

In addition to the loan guarantee program, limited direct lending is also offered by the SBA. In theory, a business which has had two SBA loan applications rejected by banks is eligible for an SBA direct loan. Funds are quite limited, however, and a waiting period of six months or more may be required even in the rare case when funds are made available.

Information about management assistance and other financial assistance programs not mentioned here is available directly from the Small Business Administration in Washington, D.C., or through any of the SBA Field Offices.

Small Business Investment Companies (SBICs)

SBICs are privately or publicly owned, government chartered suppliers of capital to new and smaller businesses. They were formed specifically to increase the availability of venture capital throughout the country.

Despite similar overall objectives, there is great variation between the operations of different SBICs. Basically, there are two types of organizations: "captive" and "independent." Captive SBICs are owned either by a bank or a corporation and are guided by the overall philosophy and objectives of the parent organization. In contrast, independent SBICs contain organizations which tend to specialize in particular industries, geographic areas or types of business risks. Most SBICs are interested in some form of equity participation; however, there are some that concentrate solely in lending money at interest rates from eight percent to 15 percent. Usually, SBICs will accept higher risk loans than banks.

SBICs are also limited by their size in the amount of staff they can afford to support; in fact, many SBICs are run part-time by one individual. Limited staffs curb the effectiveness of these smaller SBICs in consulting with company managements on business problems.

Venture Capital Firms

These firms have pools of capital raised from wealthy individuals, corporations, or institutional investors on behalf of which they make aggressive investments that offer high-risk and high-profit returns. They can be independent or affiliated with investment firms of other financial organizations. Most of these groups are oriented toward maximizing the return on their investment and do not have a "social" objective. These firms have varying specialties, such as start-ups or buy-outs of existing companies. They also tend to avoid business situations that are small and do not offer great growth potential. They tend to look very carefully at the "track record" of an entrepreneur and actual business experience in the particular industry. Given their criteria, many minority entrepreneurs will find it very difficult to obtain capital from a venture capital firm.

Corporate Venture Capital Activities

Some large industrial companies have set up internal venture capital staffs to make investments, usually in related but non-competing fields. Their objective is usually to cultivate a potential supplier or customer or to foster new product diversification. Corporations or insurance companies wishing to make minority investments have in many cases set up MESBICs as the vehicle for sponsoring minority capital. Corporations without affiliated MESBICs are unlikely sources of minority enterprise capital.

Minority Enterprise Small Business Investment Companies (MESBICs or 301(d) licensees)

MESBICs are SBICs licensed by the SBA to encourage investments in business owned and operated by "disadvantaged Americans." According to Small Business Administration definitions, four categories of people are considered to be "disadvantaged": 1) racial minorities; 2) American citizens of Spanish extraction; 3) veterans who have served on active duty since August 5, 1964; and 4) United States citizens who, for a variety of reasons, are unable to participate fully in the American economic system. Further information on the qualifications for eligibility of funds from MESBICs is available from the SBA.

The services offered by MESBICs include purchasing equity interest, long-term lending (often with warrants permitting equity purchases), guaranteeing loans made by third

panies, and providing general management, technical, and financial assistance. MESBICs represent the largest and most logical institutional source of minority capital available at present. As with SBICs, there are large differences in investment philosophies due to the sources of their private capital. For this reason, the entrepreneur must be certain that the investment philosophy of the MESBIC is compatible with the needs of his or her company.

Approximately 65 MESBICs were individually surveyed with the following results.

Investment Funds — the funds available for investment are dependent upon the MESBIC's investment activity and the ability of its management to secure additional capital from the MESBIC's sponsors. The minority entrepreneur should ascertain the amount of MESBIC funds available in order to avoid spending time convincing an investor who might be unable to fund the business or provide second round financing.

Source of Capital — the ownership of the MESBIC is of importance in estimating the MESBIC's underlying investment objectives, aggressiveness and ability to provide additional capital and technical or other services to the success of the venture.

Minimum Size of Investments — the minority entrepreneur should be aware that many MESBICs avoid even considering investments of less than \$50,000. Of the 65 MESBICs, only a small percentage were interested in investments of less than \$50,000. A major reason for this reluctance is due to the low profit potential of small businesses. In addition, according to several MESBICs, most deals of less than \$50,000 tend to be so small as not to have broad based management. An entrepreneur with an extremely good financing proposal of reasonably small size should not be discouraged by MESBIC's publicly stated minimum investment criteria. A good deal will be accepted by an MESBIC even if it falls below the publicly stated minimum investment figure.

Preferred Size of Investments — of the 65 MESBICs surveyed, the average size of investment was approximately \$50,000 for the smaller ones and \$150,000 for the larger ones. These figures should be interpreted cautiously for a number of reasons. MESBICs are also subject to profound changes in investment philosophies over periods of time, and historical averages are often meaningless when attempting to formulate a profile which describes their present investment philosophies.

Types of Securities — most MESBICs prefer some sort of subordinated debt security, as opposed to straight equity. Debt, debt with warrants, and preferred stock are the most common. Nevertheless, most MESBICs would appear to be receptive to well thought out equity investment opportunities.

Geographical Preferences — as might be expected, most MESBICs prefer to invest in companies which are located in their geographic areas. Because of the liquidity problem in venture capital investments, it is extremely difficult for an investor to have money returned quickly. Therefore, most investors like to maintain a close watch on the operations of their portfolio companies. In many cases, MESBICs are willing to participate in out-of-area deals if another investor, located in the same region as the company, takes the lead. For this reason, the most logical MESBICs for an entrepreneur to approach are those located near the intended area of business assuming the MESBIC meets the entrepreneurs' selection criterion. Also, many MESBICs owned by large corporations will invest anywhere in the Nation.

Investment Preferences — although almost all MESBICs publicize themselves as "diversified" lenders, many are quite limited in the type of ventures they will finance. By advertising as a diversified investor, an MESBIC does not limit itself. Unique experiences of MESBIC managers may also make MESBICs more or less inclined to finance particular kinds of deals. An MESBIC president with experience in manufacturing, for example, may

be reluctant to invest in a retailing concern, not because it is an unsound deal, but because of unfamiliarity with the business. The more information that the entrepreneur can gain about such preferences the easier the task of raising capital will be. *The best procedure for discovering the true investment policy of an MESBIC is simply to ask.*

One of the intentions of an MESBIC program was to provide equity capital to minority entrepreneurs. In reality, most MESBICs are reluctant to provide equity financing and are far more interested in debt financing. This is because they need interest income to cover operating expenses. Although the terms of financing are often more flexible than with other sources of debt capital such as banks, debt financing places burdens on developing businesses since funds which might be used for working capital, growth, or improvement of market position must be used instead for interest payment and loan repayment. Because of this, minority entrepreneurs should expect dealings with MESBICs to be no less frustrating than their dealings with many other sources of capital.

Consulting Services — part of the difficulty in describing the consulting services that some MESBICs offer results from the extremely wide variety of services which are provided. These include preparation of a proposal, development of cash flow projections, income statements, balance sheets, legal, tax, marketing and technical assistance, and ongoing operations and management advice.

Some MESBICs claim to offer consulting services. It is extremely difficult to determine the extent to which an individual MESBIC actually provides consulting services. Many offer these services directly, while others offer them through local agencies specializing in such services. In addition, the Office of Minority Business Enterprise (OMBE) provides contract agencies which are chartered to work closely with the MESBICs in providing assistance.

Generally, though, a proposal which is professionally packaged and organized has a much better chance of being approved, and many investors advise consulting an OMBE or SBA office before contacting organized investors. However, some MESBIC managers generally feel more comfortable with entrepreneurs who have the resources (among the management and advisory teams) to prepare a proposal without the help of these agencies.

Summary — the minority capital investment community is a small one. Most investors, whether they operate regionally or nationally, know or have worked with each other on previous investment deals. This close-knit community has produced several phenomena of interest to the entrepreneur:

- Investors often join together on ventures in order to minimize their investment and to share the risk. However, it is unusual to find investors with widely different styles or criteria participating in the same deal. For instance, it may be difficult to mix minority capital investors with conventional investors unless their investment objectives are similar.
- Investors usually have high ethical standards. Those who do not abide by the ethics of the financial world are quickly discovered and excluded from deals. The reputation of the investor is an important asset; the investor will not risk it by stealing a venture while another investor is still considering the deal. Therefore, entrepreneurs should not try to play one investor against another.
- As soon as a venture is turned down by one investor, other investors often become wary of it; however, investors may recommend ventures they have rejected to others who might find it more to their liking and investment objectives. Finally, assume that all the investors you approach will eventually talk to each other about you and your deal.

LISTING OF SOURCES OF CAPITAL

KEY FOR CODE NUMBER OF EACH SOURCE OF CAPITAL

<u>Code</u>	<u>Type of Ownership</u>
1	Bank Dominated (50% or more owned by Bank or Bank Holding Company)
2	Bank Associated (10% to 49% owned by Bank or Bank Holding Company)
3	Financial Organization other than Bank or Bank Holding Company (Public or Non-Public)
4	Non-Financial Organization (Public or Non-Public)
5	Individual Owned (Privately Held)
6	'40 Act Company

Type of Investments

D	Debt Loans
DEK	Debt Loans with Equity Features
	Convertibles Debt
	Subordinated Debt
	Warrants
Pfd	Preferred Stock
E	Common Stock

Notes:

These tables list sources of capital that are oriented toward making investments in minority businesses. The investment criteria of these sources are subject to constant change and the information herein is intended to be only an initial guide.

For a listing of SBICs across the country, together with their loan limits, investment policies and industry preferences, contact the National Association of Small Business Investment Companies (NASBIC), 512 Washington Building, Washington, D. C. 20005; or call 202-638-3411.

MESBICs

CALIFORNIA

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
MCA New Ventures, Inc. 100 Universal City Plaza Universal City, California 91808 (818) 985-4321 Robert A. Simmons	\$15,000,000	MCA Inc.	\$ 50,000	\$ 900,000	D/Pfd/E	None	Yes	3	Entertainment Industry

CONNECTICUT

Cominvest of Hartford, Inc. 18 Asylum Street Hartford, Connecticut 06103 (203) 246-7250 Vernal R. Mendez Vice President & Manager	1,500,000	"1"	50,000	150,000	D/DEK/E	New England	Yes	6	Diversified
Hartford Community Capital Corporation 777 Main Street Hartford, Connecticut 06115 (203) 728-2507 Mrs. Jan-Gee W. McCollam President	150,000	"2"	5,000	90,000	D/Pfd	Connecticut N.Y., N.J. Mass.	Yes	9	Diversified

HAWAII

Pacific Venture Capital, Ltd. 1505 Dillingham Blvd. Honolulu, Hawaii 96817 (808) 847-6502 M. J. Coy President	3,500,000	"4"	50,000	200,000	D/Pfd/E DEK	Hawaii & Pacific area only	Yes	4	Diversified
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ILLINOIS

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Amoco Venture Capital Company 200 East Randolph Drive Chicago, Illinois 60601 (312) 856-8523 Lyle E. Schaffer President	\$ 750,000	Amoco Inc.	\$100,000	\$ 225,000	D/DEK/Ptd/E	None	Yes	9	Diversified suppliers to oil companies
CEDCO Capital Corporation 180 North Michigan Chicago, Illinois 60601 (312) 984-5950 Joseph Miller General Manager	1,000,000	"4"	100,000	100,000	D/DEK/Ptd/E	Illinois	Yes	7	Diversified
Chicago Community Ventures, Inc. Suite 1114 19 South LaSalle Street Chicago, Illinois 60603 (312) 726-6084 Phyllis George President	2,000,000	"4"	25,000	150,000	D/DEK/E	Chicago Metro	Yes	9	Diversified
Tower Ventures, Inc. Sears Tower, BSC 9-29 Chicago, Illinois 60684 (312) 875-9628 Any staff person	3,000,000	Sears owned	20,000	300,000	D/DEK/Ptd/E	None	Yes	N/A	Manufacturing and service businesses
The Urban Fund 300 North State Street Chicago, Illinois 60684 (312) 266-3050 Peter H. Ross President	2,100,000	"1"	100,000	200,000	D/DEK/Ptd/E	Midwest	Yes	9	Diversified

KENTUCKY

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Equal Opportunity Finance, Inc. 224 E. Broadway Louisville, Kentucky 40201 (502) 583-0801 Dave Sattich Manager	\$ 620,000	"4"	\$ 10,000	\$ 150,000	DEK	Regional	Yes	8	Diversified

LOUISIANA

Business Capital Corporation 1732 Canal Street New Orleans, Louisiana 70112 (504) 551-4102 David R. Burns President	1,000,000	"5"	50,000	—	D/DEK	New Orleans Metro	Yes	4	Diversified
DBS Business Investment Co., Inc. 406 Lake Street Lake Providence, La. 71254 Mike Lensing Manager	372,000	"1"	—	74,500	D/Ptd	Louisiana	No	6	Agriculture
SCDF Investment Corporation P.O. Box 3005 Lafayette, Louisiana 70501 (318) 232-3769 Ken Daniels Manager	900,000	"4"	10,000	200,000	D/Ptd/E	South	None	5	Diversified

MARYLAND

Minority Investments, Inc. 8121 George Avenue Suite 801 Silver Spring, Maryland 20910 (301) 588-6626 Frederick L. Sirri President	700,000	"6"	10,000	60,000	D/E	Metro D.C.	Yes	8	Diversified
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MASSACHUSETTS

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Massachusetts Venture Capital Corp. 141 Milk Street Boston, Massachusetts 02109 (617) 426-0208 Charles T. G. Kirby President	\$ 1,400,000	"4"	\$ 50,000	\$ 150,000	D/DEK/E	New England	Yes	5	Diversified
VCCI Capital Corporation 791 Main Street Worcester, Massachusetts (617) 791-0941 Michael W. Tierney President	350,000	"4"	N/A	100,000	D/DEK	Worcester	Yes	7	Companies located/ willing to locate Worcester

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MISSISSIPPI

Invesat Capital Corporation 162 East Amite Street Suite 204 Jackson, Mississippi 39201 (601) 969-3242 J. Thomas Noojin President	15,000,000	"4"	50,000	275,000	D/DEK/Pfd/E	Greater Mississippi area	Yes	5	Diversified Buy-Outs
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MICHIGAN

Independence Capital Formation, Inc. 3049 East Grand Boulevard Detroit, Michigan 48202 (313) 875-7669 Walter M. McMurtry, Jr. President	1,000,000	"4"	100,000	300,000	D/DEK/Pfd/E	Michigan	Yes	6	Diversified
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MICHIGAN—(Continued)

<u>Company</u>	<u>Investment Funds</u>	<u>Source of Capital</u>	<u>Investment Size</u>		<u>Type of Investments</u>	<u>Geographic Preferences</u>	<u>Consulting Service</u>	<u>Years in Business</u>	<u>Investment Policy</u>
			<u>Minimum</u>	<u>Preferred</u>					
Motor Enterprises, Inc. 6-148 General Motors Bldg. 3044 West Grand Boulevard Detroit, Michigan 48202 (313) 556-4273 James Kobus Manager	\$ N/A	General Motors	\$ 5,000	\$ 100,000	D	None	Yes	9	Manufacturing and Processing
Pooled Resources Investing in Minority Enterprises, Inc. 1845 David Whitney Building Detroit, Michigan 48226 (313) 964-3380 Jimmy N. Hill President	1,000,000	"4"	100,000	150,000	D/DEK/Pld/E	Detroit Metro	Yes	9	Diversified

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NEW JERSEY

Rutgers Minority Investment Company 92 New Street Newark, New Jersey 07102 (201) 648-5287 648-5227 Dr. Linda T. German President	100,000	"5"	—	—	D/DEK/Pld/E	N.J.	No	10	Diversified
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NEW YORK

American-Asian Capital Corporation 79 Wall Street New York, New York 10015 (212) 422-6880 Howard Lin President	N/A	"5"	—	—	D/DEK/Pld/E	None	Yes	3	Diversified
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NEW YORK—(Continued)

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
BarCap Corporation 155 East 42nd Street New York, New York 10017 (212) 687-6470 William L. Whitely President	\$ 1,000,000	"1"	\$ 50,000	\$ 300,000	D/DEK/Pld/E	None	Yes	8	Diversified
CEDC Meabie, Inc. 106 Main Street Hempstead, New York 11550 (516) 292-9710 John L. Kearse President	325,000	"4"	15,000	150,000	D/DEK/E	Nassau & Suffolk N. Y. City Metro	Yes	8	Diversified
EQUICO Capital Corporation 1270 Avenue of the Americas, Suite 912 New York, New York 10020 (212) 489-7033 Terrance G. Blount President	4,650,000	Equitable Life Assurance Society of U.S.	100,000	300,000	D/Pld/E	None	None	8	Diversified
Minority Equity Capital Company, Inc. 275 Madison Avenue Suite 1901 New York, New York 10016 (212) 686-9710 Patrick Owen Burns President	2,600,000	"3"	100,000	200,000	D/DEK/Pld/E	None	Yes	9	Diversified
North Street Capital Corporation 250 North Street White Plains New York 10625 (914) 683-2500 Ralph L. McNeal President	1,500,000	General Foods	50,000	150,000	D/DEK/E	None	Yes	9	Diversified Broadcasting Wholesaling Leisure Franchises

NEW YORK—(Continued)

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Pioneer Capital Corporation 1 Battery Park Plaza New York, New York 10004 (212) 483-9127 Scott Asen Director	\$ 1,800,000	"5"	\$ 50,000	\$ 210,000	D/Pfd/E	None	No	11	Diversified
Situation Ventures Corporation 4522 Fort Hamilton Parkway Brooklyn, New York 11219 (212) 438-4909 Sam Hollander President	200,000	"5"	25,000	50,000	D/DEK	NY Metro	No	3	Diversified

NORTH CAROLINA

Vanguard Investment Company, Inc. Suite 309 Pepper Building Fourth and Liberty Streets Winston-Salem, North Carolina 27101 (919) 724-3676 James F. Hensley President	900,000	"4"	100,000	250,000	DEK	None	Yes	9	Diversified (also Franchises)
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OHIO

Dayton Mesbic, Inc. 40 W. 4th Street Suite 1820 Dayton, Ohio 45402 (513) 223-9405 L. A. Lucas President	1,000,000	"4"	50,000	150,000	D/Pfd/E	None	Yes	7	Diversified
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OHIO—(Continued)

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Glenco Enterprises, Inc. 1464 E. 105 Street Suite 101 Cleveland, Ohio 44106 (216) 721-1200 Dr. Lewis F. Wright Managing Director	\$ 500,000	"5"	\$ 50,000	\$ 150,000	D/Pfd/E	None	Yes	6	Diversified— Industrial/ commercial

OKLAHOMA

Oklahoma Industrial Finance Authority 4024 N. Lincoln Blvd. P.O. Box 53424 Oklahoma City, Okla. 73152 (405) 521-2182 John R. Baker, Jr. Loan Officer	1,500,000	"3"	10,000	1,000,000	D	None	Yes	17	Manufacturing and processing
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PENNSYLVANIA

Alliance Enterprise Corporation 1616 Walnut St. # 802 Philadelphia, Pa. 19103 (215) 972-4230 Richard Cummings, Jr. President	4,700,000	Sun Company	150,000	250,000	DEK/E	National	N/A	8	Diversified and Broadcasting
Cottman Capital Corporation 575 Virginia Drive Ft. Washington, Pa. 19034 (215) 843-5885 Larry Klick Vice President	300,000	Cottman Transmission Centers	N/A	N/A	D	None	Yes	3	Cottman Transmission Centers Franchises

PENNSYLVANIA—(Continued)

<u>Company</u>	<u>Investment Funds</u>	<u>Source of Capital</u>	<u>Investment Size</u>		<u>Type of Investments</u>	<u>Geographic Preferences</u>	<u>Consulting Service</u>	<u>Years in Business</u>	<u>Investment Policy</u>
			<u>Minimum</u>	<u>Preferred</u>					
Greater Philadelphia Venture Capital Corporation, Inc. 920 Lewis Tower Building 225 S. Fifteenth Street Philadelphia, Pa. 19102 (215) 732-3415 Wilson DeWald General Manager	\$ 300,000	"2"	\$ 25,000	\$ 200,000	DEK	Middle Atlantic States	No	8	Diversified
Progress Venture Capital Corporation 1501 N. Broad Street Philadelphia, Pa. 19122 (215) 684-3400 Billy T. Caldwell Investment Specialist	800,000	"2"	5,000	50,000	D/Pfd/E	Philadelphia-Delaware Valley	No	9	Auto and Transportation

TEXAS

MESBIC Financial Corporation of Dallas 7701 Stemmons Freeway Suite 850 Dallas, Texas 75247 (214) 637-0445 Walter W. Durham President	2,600,000	"2"	50,000	100,000	D/Pfd/E	Greater Dallas area	Yes	10	Diversified
MESBIC Financial Corporation of Houston 2903 Richmond Avenue Houston, Texas 77098 (713) 528-2061 Peter D. Sterling President	1,700,000	"2"	50,000	200,000	D/DEK/Pfd/E	Greater Houston area	None	3	Diversified

VIRGINIA

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
East West United Investment Company 6723 Whittier Avenue McLean, Virginia 22101 (703) 821-8816 Mrs. Do Thi Nga Chairman	\$ 1,500,000	"5"	\$ 20,000	\$ 150,000	D/Ptd/E	Washington Metro area	Yes	5	Diversified to Asian minorities
Norfolk Investment Company Suite 515 Royster Building 205 Granby Street Norfolk, Virginia 23510 (804) 622-0013 Kirk W. Saunders President	700,000	"5"	None	100,000	D/DEK/Ptd/E	None	Yes	6	Diversified
Professional Capital Corporation 1121 Arlington Blvd. Suite 56 Arlington, Virginia 22206 (703) 528-0302 Bentley V. Plummer Chairman	100,000	"5"	10,000	85,000	DEK/E	District of Columbia, Maryland, Virginia	Yes	4	Diversified

WASHINGTON

Model Capital Corporation % Seattle Urban League 105-14th Avenue Seattle, Washington 98122 (206) 477-3799 Norward Brooks Chairman	400,000	N/A	20,000	45,000	D/Ptd/E	Pacific Northwest	Yes	9	Diversified
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WEST VIRGINIA

<u>Company</u>	<u>Investment Funds</u>	<u>Source of Capital</u>	<u>Investment Size</u>		<u>Type of Investments</u>	<u>Geographic Preferences</u>	<u>Consulting Service</u>	<u>Years in Business</u>	<u>Investment Policy</u>
			<u>Minimum</u>	<u>Preferred</u>					
Lico Meebic Investment Company 108 1/2 S. Fayette Street Beckley, West Virginia 25801 (304) 252-6942 James A. Parker Vice President General Manager	\$ 1,500,000	"S"	\$ 15,000	\$ 150,000	D/DEK/E	Regional	Yes	3	Diversified Health care

WISCONSIN

SC Opportunities, Inc. 1112 7th Avenue Monroe, Wisconsin 53566 (608) 326-8400 Ron Elke Assistant Manager	425,000	Swiss Colony	5,000	90,000	D/E	None	No	3	Swiss Colony Franchisees
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MISCELLANEOUS SOURCES

DISTRICT OF COLUMBIA

Company	Investment Funds	Source of Capital	Investment Size		Type of Investments	Geographic Preferences	Consulting Service	Years in Business	Investment Policy
			Minimum	Preferred					
Fulcrum Venture Capital Corp. (FVCC) 202 K Street, N.W. Washington, D.C. 20006 (202) 633-9590 Steven Lilly President	\$ 4,000,000	"1"	\$200,000	\$ 300,000	D/Pld/E	National	No	2	Manufacturing Distribution
Opportunity Funding Corp. 2021 K Street, N.W. Suite 701 Washington, D.C. 20006 (202) 633-9580 C. Robert Kemp President	14,800,000	N/A	50,000	500,000	D/DEK/Pld/E	N/A	No	9	General—emphasis in manufacturing and financial institutions
Syncom (Syndicated Communications, Inc.) Suite 414 1625 I St., N.W. Washington, D.C. 20006 (202) 293-9428 Herbert P. Wilkins President	3,500,000	"5"	100,000	350,000	DEK/Pld	National	No	3	Radio, TV Cable only

MASSACHUSETTS

Massachusetts Community Development Finance Corp. 131 State Street Suite 600 Boston, Mass. 02109 (617) 742-0366 Matthew Hobbs President	\$10,000,000	"4"	N/A	N/A	N/A	Massachusetts	Yes	2	Community development corporations
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MASSACHUSETTS—(Continued)

<u>Company</u>	<u>Investment Funds</u>	<u>Source of Capital</u>	<u>Investment Size</u>		<u>Type of Investments</u>	<u>Geographic Preferences</u>	<u>Consulting Service</u>	<u>Years in Business</u>	<u>Investment Policy</u>
			<u>Minimum</u>	<u>Preferred</u>					
Urban National Corporation 117 Milk Street Boston, Mass. 02108 (617) 482-3651 Edward Dugger President	10,000,000	"3"	\$200,000	\$ 300,000	D/Pfd	National	Yes	8	Diversified
NEW YORK Beesmer Securities Corp. 245 Park Avenue New York, N.Y. (212) 949-7813 Robert H. Buescher, Investment Manager	N/A	"5"	500,000	1,000,000	DEK/Pfd/E	National	No	50	Diversified
Daniels & Bell, Inc. 20 Exchange Place New York, New York 10005 (212) 422-1700 William Travis, Chairman	1,000,000	"1"	100,000	1,000,000	D/DEK/Pfd/E	National	Yes	9	National
United Presbyterian Economic Development Corporation (PEDCO) 475 Riverside Drive New York, N.Y. (212) 870-2125 Milton Page, Executive Director	N/A	"1"	20,000	100,000	D/DEK/E	National	No	11	Diversified

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Director of Operating Small Business Investment, June 1977, United States Small Business Administration.

Financing Small Business, Volume 13, No. 7, Published 1976, Small Business Reporter, Bank of America, Department 3120, P.O. Box 37000, San Francisco, California 94137.

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A Banker's Guide to Small Business Loans, 1975, American Bankers Association, 1120 Connecticut Avenue, N.W., Washington, D.C. 20036.

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Up Your Own Organization, 1971, Dohald M. Dible, The Enterprise Press, Santa Clara, California.

American Association of Minority Enterprise Small Business Investment Companies, 915 15th Street, N.W., Suite 700, Washington, D.C. 20005